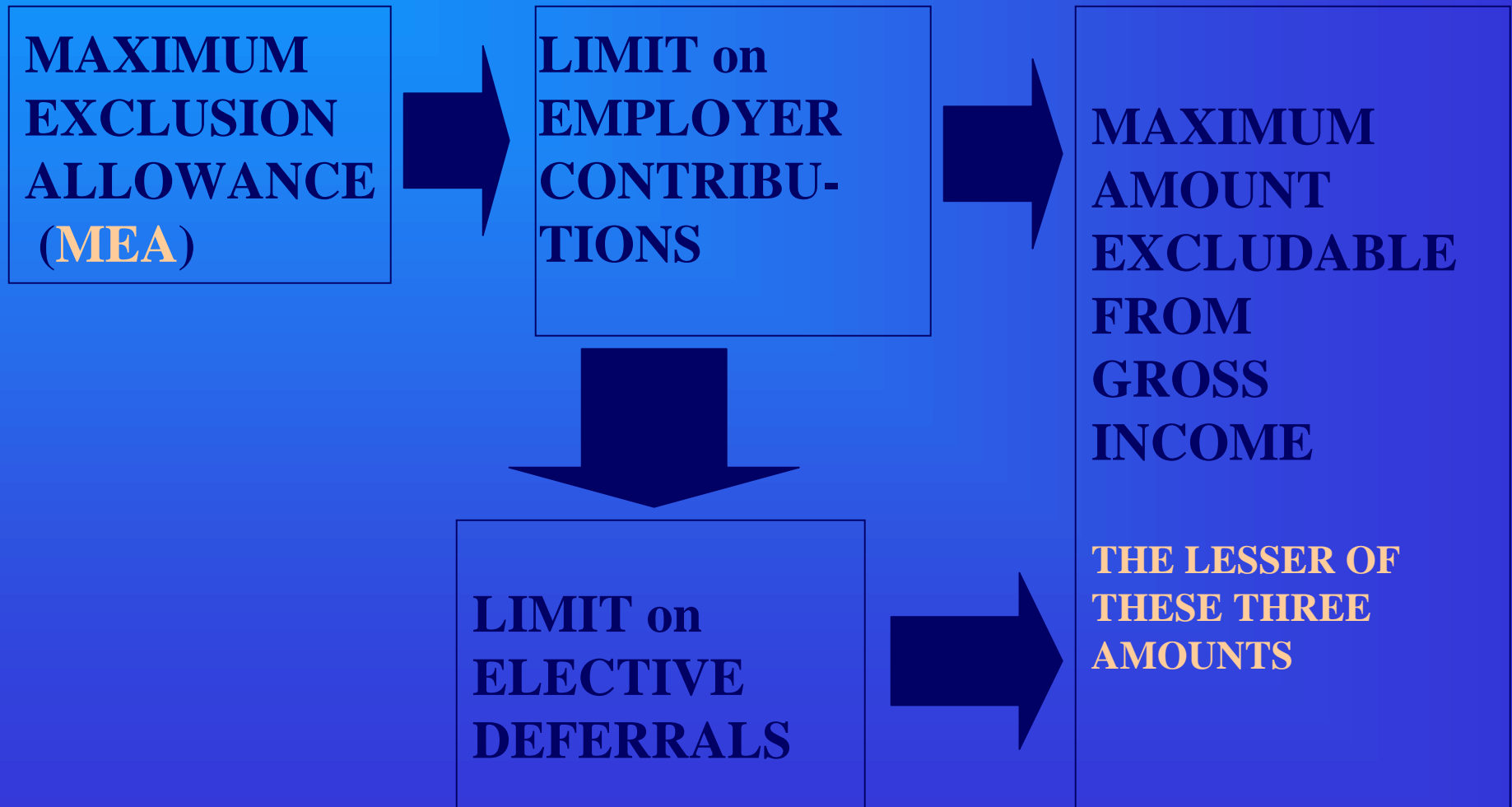




IRC §403(b) Outreach Program

Partnership for Compliance Tax Sheltered Annuities Public Schools

OVERVIEW OF CONTRIBUTION LIMITS



GENERAL RULES FOR MEA

- ▼ **Applies to both non-elective and elective contributions**
- ▼ **Applies only to vested amounts**
- ▼ **Contributions are combined for the same Employer**
- ▼ **Calculated separately for different Employers**

MEA FORMULA

- ▼ 20%, times
- ▼ Includible compensation, times
- ▼ Years of service , less
- ▼ Amounts previously excluded

Key Points for Includible Compensation

- ▼ **Compensation earned during most recent one year period of service**
- ▼ **Taxable income + elective deferrals + amounts contributed to a section 457 or section 125 arrangement**

Years of Service (YOS)

- ◆ **All YOS for the employer ending with or within the employee's tax year**
- ◆ **Full YOS determined on employer work period**
- ◆ **Employee is credited with fractional YOS**
- ◆ **In no case is YOS less than 1**
- ◆ **Full-time & part-time handled differently**

Amount Previously Excluded Does Not Include:

- ▼ **Non-vested contributions to 403(b)**
- ▼ **Prior amounts in excess of exclusion allowance (except to extent also in excess of 415 limits)**

GENERAL RULE on Contribution Limits

Unless a special election is made, annual additions may not exceed the lesser of 25% of compensation or \$30,000 (\$35,000 for years beginning after 12/31/2000) in an Employee's calendar year.

Example

- ▼ Compensation = \$25,000
- ▼ Annual Additions = \$6,500
(\$6,000 deferral plus
\$500 Employer contribution)
- ▼ Limit is the lesser of :
\$30,000 or \$25,000 times 25% = \$6,250
- ▼ Excess Annual Additions \$250
(\$6,500 - \$6,250)

Special Catch-up Elections

The elections are commonly known as;

- ▼ **“A” election - year of separation from service limit,**
- ▼ **“B” election - any year limit, and**
- ▼ **“C” election - overall limit**

“A” Elections

Employee separating from service may use the lesser of:

▼ **\$30,000 (\$35,000 for years beginning after 12/31/2000)**

▼ **MEA - taking into account**

Only the ten years of service ending

With the separation from service

“B” Elections

Employee may defer the smallest of :

- ▼ (A) \$4,000 plus 25 percent of includible Compensation,**
- ▼ (B) the amount of the exclusion Allowance, or**
- ▼ (C) \$15,000**

“C” Elections

- ▼ Employee may elect to use the **general rule** limit rather than the exclusion allowance
- ▼ The TSA is considered maintained by employer and employee

Making Catch-up Elections

- ▼ A catch-up election is made by filing the individual's income tax return in a manner that is consistent with the election.
- ▼ Once the election is made, the election is irrevocable as to employment with that employer.

Limit on Elective Deferrals

General Rules -

- ▼ Elective Deferral limit (\$10,000 in 1999 and \$10,500 in 2000)
- ▼ Elective Deferral is any contribution that arises because of an employee's election between current cash or deferral
- ▼ Elective deferral is any elective contribution to qualified 401(k) plan, SEP, 501(c)(18), or a 403(b) plan

Limit on Elective Deferrals (con't)

- ▼ Limit applies to all the elective deferrals made by an employee per Taxable Year
- ▼ Multiple employers would be counted for the annual limit
- ▼ Taxable Year = Employee's Calendar year
- ▼ Warning! IRC 457(b) limit of \$8,000

Special Catch-up Election for Employees with 15 Years of Service

The annual limitation (\$10,500 in 2000) is increased by the smallest of:

- ▼ \$3,000
- ▼ \$15,000 minus prior catch-up elective deferrals
- ▼ \$5,000 times years of service, less the prior elective deferrals
 - ◆ Note special 457(b) rules

Available Correction Programs

Revenue Procedure 2000-16

- ▼ **Administrative Policy Regarding Self-Correction (APRSC)**
- ▼ **Tax Sheltered Annuity Voluntary Correction (TVC)**
- ▼ **Audit Closing Agreement Program (Audit CAP)**

**For further information, please go to the
Employee Plans Corner (Internet) at:**

<http://www.irs.gov/ep>